

recent 5 taxable years ending before  
October 14, 1995.  
then, in lieu of applying subparagraph (A),  
the term  
"base period year" means only those taxable  
years (of  
such 5 taxable years) for which the  
corporation has  
significant possession income: except that,  
if such cor-  
poration has significant possession income  
for 4 of  
such 5 taxable years, the rule of  
subparagraph (A)(ii)  
shall apply.

"(ii) SPECIAL RULE.—If there is no year  
(of such  
5 taxable years) for which a corporation has  
significant  
possession income—

"(I) the term "base period year"  
means the first  
taxable year ending on or after October  
14, 1995,  
but

"(II) the amount of possession income  
for such  
year which is taken into account under  
paragraph  
(4) shall be the amount which would be  
determined  
if such year were a short taxable  
year ending  
on September 30, 1995.

"(iii) SIGNIFICANT POSSESSION INCOME.—  
For pur-  
poses of this subparagraph, the term  
"significant  
possession income" means possession  
income which  
exceeds 2 percent of the possession income  
of the tax-  
payer for the taxable year (of the period of  
6 taxable  
years ending with the first taxable year  
ending on  
or after October 14, 1995) having the  
greatest pos-  
session income.

"(C) ELECTION TO USE ONE BASE PERIOD YEAR.—

"(i) IN GENERAL.—At the election of the  
taxpayer,  
the term "base period year" means—

"(I) only the last taxable year of the  
corpora-  
tion ending in calendar year 1992, or

"(II) a deemed taxable year which includes  
the first ten months of calendar year 1995.

"(ii) BASE PERIOD INCOME FOR 1995.—In determin-  
ing the adjusted base period income of the

corporation  
for the deemed taxable year under clause (i)(II),  
the  
possession income shall be annualized and shall  
be  
determined without regard to any extraordinary  
item.

"(iii) ELECTION.—An election under this subparagraph by any possession corporation may be made only for the corporation's first taxable year beginning after December 31, 1995, for which it is a possession corporation. The rules of subclauses (II) and (III) of subsection (a)(4)(B)(iii) shall apply to the election under this subparagraph."

"(D) ACQUISITIONS AND DISPOSITIONS.—Rules similar to the rules of subparagraphs (A) and (B) of section 41(f)(3) shall apply for purposes of this subsection."

"(6) POSSESSION INCOME.—For purposes of this subsection, the term "possession income" means, with respect to any possession, the income referred to in subsection (a)(1)(A) determined with respect to that possession. In no event shall possession income be treated as being less than zero."

"(7) SHORT YEARS.—If the current year or a base period year is a short taxable year, the application of this subsection